HOUSING MARKET OUTLOOK
Saguenay CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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Housing market to rebound in 2010

With the economic recovery, housing activity will pick up in 2010[1]. For one thing, the uncertainty will progressively wane, as economic growth and job creation gain strength. For another, the historically low mortgage financing costs will have prompted many households to move up their home purchases before interest rates rise again. While this eventuality will cool the ardour of buyers during the second half of 2010, the annual result will be positive. In addition to the increase in the single-detached home segment (+4 per cent), the construction of many rental housing units, including some in retirement homes, will contribute to the achievement of an annual total of over 800 starts in 2010.

Figure 1

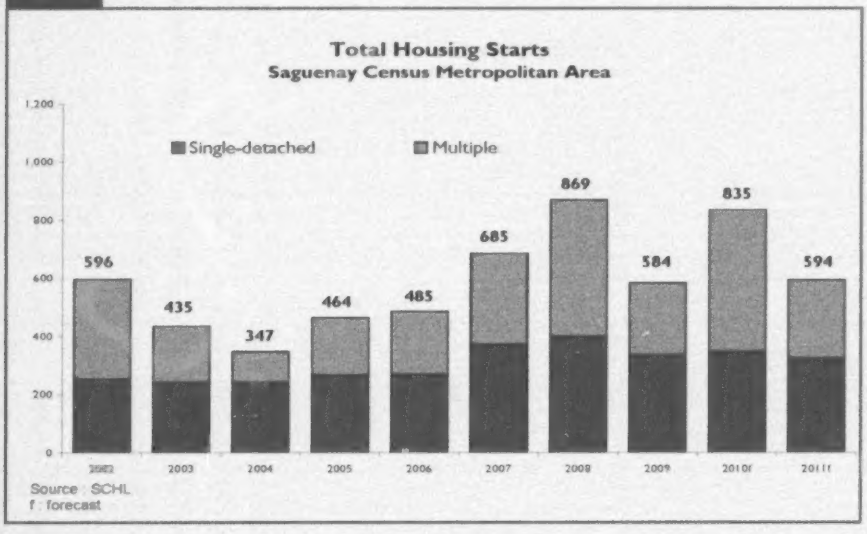

Table of Contents

1 Housing market to rebound in 2010
2 Employment growth expected in the area
2 Mortgage rates
2 Demographic outlook for the area
2 Resale market
3 Residential construction
4 Rental market to ease in 2010 and 2011
5 Forcast summary

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[1] The forecasts included in this document are based on information available as of April 23, 2010.

In line with the end of 2010, and further to a break in retirement home construction, housing activity will be more moderate in 2011, with approximately 600 starts. It will be a similar situation on the resale market, with an increase in sales in 2010 (+7 per cent), followed by a decrease in 2011 (-5 per cent). As for prices, the growth will be more sustained in 2010 (+6 per cent), and a more modest rise will be registered in 2011 (+3 per cent). Lastly, on the rental market, the movement to homeownership and the increase in supply will cause conditions to ease.

Employment growth expected in the area

Despite the economic conditions that prevailed last year, the Saguenay census metropolitan area (CMA) posted a small gain (+0.6 per cent) in the number of employed persons. The trade, public administration and construction sectors contributed to this positive outcome. However, notable job losses were registered in the manufacturing and transportation and communication sectors. While the Saguenay economy is dependent on the aluminum market and forest products, the greater economic diversification and many private and public investment projects in the area helped achieve this result. However, the smaller Lac-Saint-Jean urban centres were harder hit by the difficulties in the forest industry as, overall, they sustained a 6-per-cent drop in employment in 2009.

The employment outlook is favourable in the Saguenay CMA. Numerous investments will increase demand for workers. First, private investments in the production and transformation of alumina and aluminum will pick up. Second, many public investments in infrastructure projects, sports facilities and the education sector will stimulate employment. As well, the major hydroelectric projects are continuing, and work will get under way to refurbish two dams in the area. Finally, residential construction will also help raise employment in the sector. This job creation will make up for the difficulties that may persist among exporters contending with a reduced demand for forest products and a Canadian dollar that is hovering near parity. Employment will grow in 2010 and 2011, to reach 70,000 jobs at the end of this period.

Mortgage rates

The Bank of Canada cut the target for the overnight rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Demographic outlook for the area

At the beginning of 2010, Statistics Canada released its migration estimates for 2008/2009, as well as its revised estimates for 2007/2008. While the net migration deficit remains, it is lessening. This revision remains consistent with our reading of the market, which indicates a sustained demand for housing in the Saguenay CMA. Rising net migration leads to higher household formation, a stronger demand for rental housing and a greater potential for residential construction. The net migration estimate for 2008 (-339) once again confirms a reduction in the migration deficit. However, it is expected that this deficit will deteriorate slightly in 2009 (-450), on account of the economic uncertainty prevailing at the time. Given the economic outlook and the employment growth in the area, though, the migration deficit should continue to diminish.

Resale market

As mentioned earlier, the situation prevailing on financial market over the last few quarters set the table for exceptional financing conditions and a rebound on the resale market. While many households were able to catch up on their home buying projects as of the second quarter of 2009, others then moved up their purchases. Given the progressive rise in interest rates and the earlier-than-planned purchases, transactions will take place mainly during the first quarters of the year. Overall, MLS® sales will rise by 7 per cent in 2010, to 1,575 transactions, a level close to the volumes recorded in 2006 and 2007.

The decrease in activity at the end of 2010 will continue in 2011, such that MLS® sales are expected to fall by 5 per cent, to 1,500 transactions.

The Saguenay CMA has been a seller's market for several years now. Since the end of 2007, however, the decrease in transactions, combined with an increase in listings, has caused market conditions to ease gradually. The annual growth in the average price of residential properties consequently fell from 13 per cent in 2007 to 10 per cent in 2008 and then to 5 per cent in 2009. With the stronger demand and more limited supply, the average price of homes should rise by 6 per cent in 2010. Subsequently, since sales will fall and the higher interest rates will raise financing costs for buyers, the average price will increase much more modestly (+3 per cent).

Residential construction

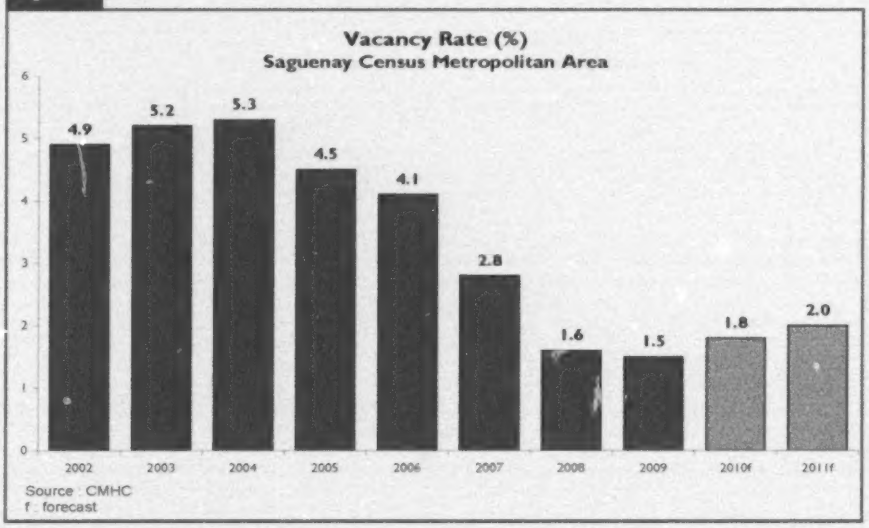
Residential construction will likely post a strong year in 2010. For one thing, the current financing conditions are stimulating home purchases, particularly among first-time buyers. For another, many rental housing projects, including some for seniors, will push up the number of starts. According to our forecasts, 835 units will be started in 2010. Then, housing activity will slow down in 2011, as fewer large rental projects will get under way and housing demand will weaken. The rise in mortgage rates will have a dampening effect on residential construction but will come with a more structural determining factor, since the growth in potential housing demand — related to the demographic trend — will be tending to slow down over the coming years.

Starts of freehold homes[2] will be on the rise in 2010 (+3 per cent), mainly thanks to the start of construction on 350 single-detached houses (+4 per cent). And, the strong housing demand will spill over onto the new home market, as the low financing costs will also facilitate the purchase of new properties.

Like the resale market, the new home market will register a stronger pace of activity at the beginning of the year, as some households will move up their purchases to take advantage of the low interest rates. The construction of dwellings that are more affordable than single-detached houses, such as multiple-unit freehold homes and condominiums, will be sustained. For one thing, while the low mortgage rates may attenuate the effect of the growth in home prices, these housing types remain an interesting alternative for households wanting to enter the new home market. For another, these smaller homes can meet the needs of households composed of fewer people or seeking less maintenance than that required for a single-detached house. In fact, these smaller housing types were very popular in the area in 2009, in comparison with previous years. Close to one quarter of the freehold homes started in 2009 were multi-unit dwellings while, in the past, this share did not exceed 15 per cent, on average.

Total starts of multiple-family dwellings[3] should approach 500 units in 2010. Of course, the rental housing segment (traditional and retirement) will garner the lion's share, with a total of more than 350 units. Conditions on the traditional rental market are stimulating the construction of new dwellings, as the vacancy rate stood at 1.5 per cent in October 2009. As well, in the case of retirement homes, the vacancy rate for standard spaces (for persons requiring less than one and a half hours of care per day) was 1.6 per cent in February 2009. The completion of many units since 2008, the upcoming construction projects and the more limited market potential in the medium term, given

Figure 2



[2] Freehold homes refer to dwellings where the owner also holds the title of ownership to the land. They include single-detached, semi-detached and row houses, as well as duplexes and any other type of home meeting this definition.

[3] Semi-detached, row, duplex, condominium and rental.

the demographic situation, suggest that the rental housing vacancy rate could rise.

Rental market to ease in 2010 and 2011

Even though the improved net migration is supporting demand for rental housing, this market segment is bound to ease in 2010 and 2011. First, a greater number of traditional rental housing units will be completed in 2010 and, second, the low financing costs will boost the movement to homeownership, which will free up more dwellings. As a result, the vacancy rate should increase from 1.5 per cent in October 2009 to 1.8 per cent in October 2010. In 2011, the overall supply on the market will grow with the completion of privately initiated and social housing projects. The vacancy rate should therefore reach 2 per cent in October 2011.

Forecast Summary Saguenay CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market[1]							
MLS® Sales	1,603	1,488	1,472	1,575	7.0	1,500	-4.8
MLS® Active Listings	649	654	746	750	0.5	775	3.3
MLS® Average Price ($)	130,803	144,213	151,911	161,500	6.3	166,500	3.1
New Home Market							
Starts:							
Single-Detached	373	400	337	350	3.9	325	-7
Multiples	312	469	247	485	96.4	269	-44.5
Starts - Total	685	869	584	835	43.0	594	-28.9
Average Price ($):							
Single-Detached	178,276	184,719	193,687	200,000	3.3	205,000	2.5
Rental Market[2]							
October Vacancy Rate (%)	2.8	1.6	1.5	1.8	-	2.0	-
Two-bedroom Average Rent (October) ($)	490	518	518	535	-	545	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	-	5.56	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	-	7.06	-
Annual Employment Level	70,200	69,100	69,500	69,750	-	70,000	-
Employment Growth (%)	-0.3	-1.6	0.6	0.4	-	0.4	-
Unemployment rate (%)	8.8	8.5	8.6	8.4	-0.2	8.3	-0.1
Net Migration[3]	-387	-339	-450	-400	-	-350	-

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

(1) Source: QFREB by Centris® as of January 2009

(2) Privately initiated rental apartment structures of three units and over

(3) 2009 migration data is forecasted

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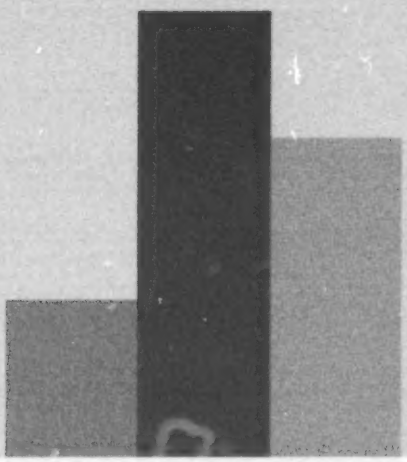

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